Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Developing a Unified Intercarrier	)	CC Docket No. 01-92
Compensation Regime	)	

Comments of the ICORE Companies

The following small, rural incumbent Local Exchange Carriers (ILECs), through the consulting firm of ICORE, Inc., offer these comments in the above captioned proceeding:

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Baraga Telco., Baraga, MI
Barry County Tel. Co., Delton, MI
Bascom Mutual Telephone Co., Bascom, OH
Benton Cooperative Telephone Co., Rice, MN
Bruce Telephone Co., Bruce, MS
CAL-ORE Telephone Co., Dorris, CA
Citizens Telephone Company of Kecksburg, Mammoth, PA
Citizens Telephone Corporation, Warren, IN
Climax Telephone Co., Climax, MI
Coalfields Telephone Co., Harold, KY
Craigville Telephone Co., Craigville, IN
Dixville Telephone, Dixville Notch, NH
Doylestown Telephone Co., Doylestown, OH
Dunbarton Telephone Company, Inc., Dunbarton, NH
Farmers Mututal Telephone Company, Bellingham, MN
Farmers Mutual Telephone Co., Okolona, OH
Fishers Island Tel. Co., Fishers Island, NY
Fort Jennings Telephone, Co, Fort Jennings, OH
Granby Tel. & Tel. Co., Granby, MA
Hollis Telephone Company, Wilton, NH
Home Telephone Co., St. Jacob, IL
The Home Telephone Company, Grand Meadow, MN
Hot Springs Telephone Co., Kalispell, MT
Ironton Telephone Company, Coplay, PA
Kaleva Telephone Company, Kaleva, MI
Kalida Telephone Company, Inc., Kalida, OH
Lavaca Telephone Company, Inc., Lavaca, AR

Leaf River Telephone Co., Leaf River, IL
LEXCOM Telephone Company, Lexington, NC
Ligonier Tel. Co., Ligonier, IN
Lynnville Telephone Co, Sully IA
McClure Telephone Company, McClure, OH
Middle Point Home Telephone Company, Middle Point, OH
Moultrie Independent Telephone Company, Lovington, IL
Mountain View Telephone Co., Mountain View, AR
New Lisbon Telephone Co., Inc., New Lisbon, IN
Northwest Iowa Telephone Co., Sergeant Bluff, IA
Northwestern Indiana Telephone Company, Hebron, IN
Nova Telephone Company, Nova, OH
Palmerton Telephone Company, Palmerton, PA
Pennsylvania Telephone Co., Jersey Shore, PA
Prairie Grove Telephone Co., Prairie Grove, AR
Richmond Telephone Company, Richmond, MA
Ronan Telephone Co., Ronan, MT
Searsboro Telephone Co., Sully, IA
Sherwood Mutual Telephone, Sherwood, OH
Skyline Telephone Membership Corporation, Jefferson, NC
Southern Montana Telephone Co., Wisdom, MT
State Long Distance Telephone Company, Elkhorn, WI
Summit Telephone Co., Inc., Fairbanks, AK
Sycamore Telephone Company, Sycamore, OH
Van Horne Co-op Telephone Co.,Van Horne, IA
Venus Telephone Corporation, Venus, PA
Waverly Hall Telephone, LLC, Waverly Hall, GA
West Side Telecommunications-WV, Morgantown, WV
West Side Telecommunications-PA, Morgantown, WV
Wilson Telephone Co., Inc., Wilson, KS
Wilton Telephone Company, Wilton, NJ
Yukon Waltz Telephone Co., Yukon, PA

I. INTRODUCTION

The ICORE companies appreciate the Commission's efforts to create a more stable and rational system of intercarrier compensation, and to reform access charges for the long term, as promulgated in its Notice of Proposed Rulemaking (NPRM) on "Developing a Unified Intercarrier Compensation Regime."

Likewise, we understand the difficulty in formulating a comprehensive approach which will best accommodate the diverse interests of our increasingly competitive industry, while encompassing the constant changes effected by rapidly emerging technologies.

Because the issue of intercarrier compensation is becoming critical to many small, rural ILECs, and access charges have long accounted for the bulk of their revenue, this NPRM is crucial to their long term viability. Thus, the small, rural ILECs represented herein offer these comments from the standpoint of their very survival.

II. A BROAD, FLEXIBLE FRAMEWORK, RATHER THAN A PRESCRIBED REGIME, IS A BETTER APPROACH TO INTERCARRIER COMPENSATION

The telecommunications industry is fluid, dynamic and highly competitive. A host of network providers — interexchange carriers (IXCs), internet service providers (ISPs), competitive local exchange carriers (CLECs), wireless carriers and others — seek to exchange traffic, lease facilities, purchase services, and interconnect their networks with small, rural ILECs. They offer a variety of competing, overlapping and different products and services from the traditional ILECs.

These competing network providers may have mostly originating, or mostly terminating traffic; very short, or very long duration calls; primarily day, night or weekend traffic; or traffic that spikes unpredictably. Their cost structures are often lower than the ILECs, as they have been able to avail themselves of the latest, most efficient technologies, and are less encumbered with regulatory burdens. Most have never been the "carrier of last resort," and many view the provision of "universal service" as simply an easy way to take the ILECs' USF support on a per line basis.

This is not to throw cold water on competition. It is simply to point out the real differences among and between competing network providers and historic ILECs. The diversity and disparity in size, operations, and economies of scale and scope among the various interconnecting entities — not to mention traffic direction and volume, as well as costs — will invariably limit the effectiveness of a fixed, "one size fits all" compensation regime.

Instead, the Commission should consider the development of a set of principles, with appropriate guidelines, that would be used to fashion private agreements between interconnecting parties. From an ILEC perspective, these principles should hold that:

- ILECs must be given a fair opportunity to recover their total costs, including joint and common costs, plus a return on their investment.
- A substantial portion of ILEC costs have been incurred to provide network connectivity and advanced services to IXCs and others, and/or to comply with regulatory requirements.
- Those entities that have directly caused the costs, as well as those that benefit therefrom, should pay for those costs.
- Since regulators and legislators have systematically eliminated historic industry "implicit subsidies" and "cross subsidies," they should not now create new ones. Specifically, ILEC end users should not, under any intercarrier compensation plan, subsidize IXCs, CLECs, ISPs, wireless carriers or other network providers.
- No intercarrier compensation or access charge plan should unfairly reduce ILEC revenue to the point of threatening universal service, or place ILECs at a competitive disadvantage versus CLECs and others.

- Any such plan should provide incentives for the ILEC to invest in infrastructure, or at least not provide disincentives for such investment.
- Beyond setting these criteria, federal and state regulators should only be involved in dispute resolution, when the private parties cannot reach agreement on interconnection rates and/or conditions.

Former Commissioner Harold Furchtgott-Roth said it best in his separate statement in this NPRM:

"The Communications Act of 1934, as amended by the Telecommunications Act of 1996 ("1996 Act"), does not require the Commission to regulate the prices charged between and among carriers. Indeed, the entire elaborate framework of Sections 251 and 252 of the 1996 Act is predicated on the primacy of contracts between private parties, not rate regulation from Washington, D.C. *See* 47 U.S.C. §§ 251-252."

"Moreover," he continued, "the 1996 Act explicitly aims to remove impediments to contract." He later opined that, "Simply stated, contracts, rather than government regulation, are the surest way to promote the public interest."

"Requiring intercarrier compensation of specific forms," he said, "such as bill and keep, is nothing more than price regulation — harmful to contracts, carriers, consumers and the public at large."

While Mr. Furchtgott-Roth's closing salvo, "Perhaps it is time for the Commission to promote both the reality as well as the rhetoric of deregulation," is a little harsh, there is room for compromise between the Commission's proposed regulatory regime and Mr. Furchtgott-Roth's laissez faire approach.

The Commission should establish a broad, flexible framework, based on a set of clear and unambiguous principles, which would guide parties in their pursuit of private interconnection agreements. Such company-specific agreements are the best way to recognize the vast differences between and among interconnecting parties, while promoting fair competition, maintaining universal service, and providing each competing entity the opportunity to survive and prosper.

III. BILL AND KEEP ARRANGEMENTS TOTALLY IGNORE COST AND TRAFFIC DIFFERENCES, AND WILL IMPROPERLY LEAD TO INCREASES IN LEC END USER RATES

Bill and Keep (B&K) methodologies, while administratively simple, fail completely to recognize valid differences in costs and traffic between interconnecting carriers. B&K should certainly be an option available to parties in their negotiation of interconnection agreements, but should never be the single, prescribed, exclusive basis of an entire regulatory regime.

B&K works fine when traffic and costs are roughly equal, when the traffic to be exchanged is minimal, when both parties agree that administrative ease is more important than traffic measurement and/or cost calculations, or when one party agrees to B&K in return for concessions somewhere else in the agreement. It will thus very likely be a mainstay in many interconnection contracts. For most small, rural ILECs, however, B&K will spell disaster.

As stated above, these ILECs tend to have relatively high per unit costs, whether measured by minute or access line. A very large proportion of these costs have been incurred to switch and transport calls to and from the interexchange network. These facilities are extremely beneficial not only to IXCs, but to CLECs, ISPs, wireless carriers and others. B&K simply gives these network providers a “free ride” on the ILECs’ facilities, leaving the costs to be borne by the ILECs’ end users.

This situation completely destroys any link between the cost causer and the cost payer, leading to the absolute worst form of subsidy. That is, rural ILEC end users — mostly residential and small business customers — will, through higher local service rates, subsidize AT&T, WorldCom, AOL-Time Warner and the other multimillion dollar telecommunications corporations that use and benefit from the ILEC network.

B&K as the prescribed methodology for intercarrier compensation will inevitably lead to increases in ILEC local service rates, threatening universal service in the process. Not only will higher rates drive end users from the ILEC’s network, but where the ILEC faces CLEC competition, the ILEC end users will have an arbitrary incentive to move to the competitor. B&K will thus create an unwarranted threat to universal service, while putting the ILEC at a competitive disadvantage.

But as bad as B&K will be as the new regime for intercarrier compensation, it will be far worse as a replacement for traditional access charge compensation. Small, rural ILECs currently receive as much as seventy five percent of their total revenues from interstate and intrastate access charges. Under current access charge rules, they are properly reimbursed by IXCs for the use of their loop, switching and transport facilities to originate and terminate IXC calls.

Much of the cost of ILEC switching and transport facilities have been incurred to serve the IXCs. Purely local (or intraexchange) traffic would not require anywhere near the sophisticated and expensive equipment that is required for connectivity to the nationwide/international toll network. These costly and complex facilities are now of great benefit to other network providers as well — CLECs, ISPs, wireless carriers and others — to originate and terminate their traffic to and from the ILECs.

Access charge compensation must continue to recognize that the IXCs and others that have caused the costs, and that benefit from them, must reimburse the ILECs for the use of the facilities giving rise to those costs. Similarly, the ILECs' loop plant is used and useful for originating and terminating traffic to and from the toll network, and must be included in access charge compensation. It is simply not fair or reasonable to assign all loop costs to the ILECs' end users.

B&K will reduce access revenues to a level where ILECs, to survive, will be forced to increase local service rates by astronomical proportions. ILECs have small customer bases, and a limited number of services, from which to recover lost revenue. The loss of most of their access revenue will necessarily result in catastrophic local rate increases to their end users. Not just universal service, but the ILECs' continued viability, will be threatened.

Competing CLECs will derive a tremendous competitive advantage. In fact, virtually no one will be able to afford ILEC service. The IXCs, with a "free ride" on ILEC facilities, will be able to reduce per minute toll rates to miniscule levels — or to substantially pad their bottom lines. The small, rural low toll volume ILEC end user may be paying as much as $75 to $100 per month for basic service, while IBM and Microsoft receive the benefit of per minute toll rates at a fraction of penny.

IV. FORWARD LOOKING ECONOMIC COST (FLEC) METHODOLOGIES ARE ALSO DEFICIENT WITH RESPECT TO ILEC COST RECOVERY

Small, rural ILECs, unlike other network providers, have never had the luxury of serving only big business customers, or high volume toll users, or only those entities within a certain distance of their wire center. They have never been allowed to market only discrete, high profit services to specific customers.

Instead, they have provided a wide variety of services — some profitable, some not — to each and every customer in their franchised territory. Small, rural ILECs have served large and small, rich and poor, business and residential customers alike, with ubiquitous, universal service. They have expended considerable capital to become an integral part of a joint and seamless nationwide network.

Because of these combined carrier of last resort and universal service obligations, the small, rural ILECs have different cost structures from other network providers. Any intercarrier compensation or access charge plan which assumes away these differences will put ILEC revenues in serious jeopardy. As stated above, B&K methodologies totally ignore such cost differences. FLEC models also fall far short of allowing ILECs to recover their actual costs.

Small, rural ILECs have high levels of embedded costs, including joint and common costs, which have been incurred to meet various regulatory requirements concerning universal service, network connectivity, and other social and industry obligations. These costs have not been incurred to provide competitive products or services to select markets. FLEC models which ignore embedded costs and substantial portions of joint and common costs — in effect, which treat traditional ILEC costs the same as new, competitive network provider costs — assume a degree of cost comparability which simply is not there.

ILEC embedded costs, including joint and common costs, are necessary and real. They have been incurred for valid purposes, often at the direction, or at least the encouragement, of regulators. They cannot now be swept under the rug because they don't fit cleanly into someone's theoretical, competitive costing and pricing model. And they should not be borne solely by ILEC end users. All interconnecting network providers benefit from the ILEC's provision of universal service and network connectivity.

In the "real world," then, ILECs must be allowed to recover their total costs, including an appropriate return. These costs must be shared in reasonable proportion by the ILECs' end users, as well as the various network providers that use the ILECs' facilities and services. FLEC methodologies are deficient in relation to proper ILEC cost recovery, and therefore should not form the basis of a prescribed intercarrier compensation or access charge regime.

V. ANY PLAN MUST PROVIDE INCENTIVES FOR INFRASTRUCTURE INVESTMENT

In developing a unified intercarrier compensation regime, including one that encompasses access arrangements, the Commission must seriously consider the effect of any such plan on infrastructure investment. In fact, a major objective of any compensation plan should be to provide incentives for such investment.

With a B&K approach, however, where almost all cost recovery falls to the ILECs' end users, there is virtually no incentive to invest in switching, transport or local distribution facilities. In fact, there is a distinct disincentive. Infrastructure investment which leads to higher end users rates forces end users to leave the ILECs' networks, leaving ever fewer end users to pay more and more for that investment. Universal service is threatened and competing network providers receive an unfair advantage.

FLEC methodologies are only marginally better. If small, rural ILECs cannot fully recover their embedded costs, including joint and common costs, incentives to invest in infrastructure diminish. When the cost differences between fully embedded and FLEC methodologies must be recovered from ILEC end users, we have the same problems as outlined above.

The only way to assure continued infrastructure investment is to allow small, rural ILECs to recover their embedded costs from all classes of users. If IXCs, ISPs, CLECs, wireless carriers and other network providers, through regulatory fiat, do not have to pay for their proportionate use of the ILECs' networks, then the ILECs' end users have to pick up the tab. This creates an intolerable situation, especially for rural ILECs that have small customer bases, and limited services, over which to spread infrastructure costs.

VI. THE PLAN MUST NOT CREATE UNINTENDED SUBSIDIES

Any plan that exempts other network providers from paying their fair share for originating and terminating traffic on the ILECs' networks, placing those costs instead on the ILECs' end users, will create a "reverse" subsidy. That is, small, rural ILEC customers — mostly residential and small business users — will end up subsidizing giant telecommunications carriers and their equally gigantic customers.

When end user rates increase $10 per month, because of such subsidies, the low volume toll user pays the freight. If rates go from 10¢ to 5¢ per minute, for instance, the 20 minute per month toll user saves $1.00 on his long distance bill, but pays another $10 for "local" service. Effectively, he now pays $11 for toll ($1.00 for long distance and the $10.00 subsidy), bringing his actual toll rate from 10¢ per minute before the new regulatory regime, to 55¢ thereafter. Larger local rate increases (subsidies) make the situation worse.

Long distance calls are to some extent discretionary. Basic telephone service is not. To load the costs of other network service providers onto the ILEC end user is a huge step in the wrong direction. ILEC local service rates of $75 to $100 per month are not at all beyond the realm of possibility if all intercarrier compensation and access charges are moved to B&K. It is grossly unfair for residential and small business users to pay four to five times what they are currently paying for local service, in order to reduce high volume toll users to fraction-of-a-cent per minute long distance rates.

What is the problem with having IXCs — those entities that have caused a large portion of ILEC switching and network costs — continue to pay for those costs? What is the problem with having CLECs, wireless providers and others — which greatly benefit from ILEC switching, network and distribution facilities — pay their proportionate share, also?

If ILEC end users are made to pay the costs that rightly should be borne by other network providers, they subsidize those providers. This situation is totally contrary to the Telecommunications Act of 1996 and the Commission's public interest standards, and cannot be tolerated.

VII. CONCLUSION

Small, rural ILECs are far different from IXCs, wireless providers and the newer competitive service providers such as ISPs and CLECs. The ILECs have not had the freedom to serve, or not serve, various markets, geographic areas or classes of customers, and have not been able to pick and choose which specific services to offer.

Rather, their cost bases have been dictated by the regulatory, social, and industry obligations of universal service at reasonable rates, network connectivity, and the offering of a wide array of services and products to all customers.

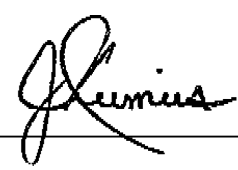
The Commission, using the principles enunciated above, should recognize these differences in its formulation of any intercarrier compensation or access charge regimes. Because of these differences — not only between the small, rural ILECs and the other network providers, but among the IXCs, wireless carriers, CLECs, ISPs and others — the Commission should establish only a broad framework for future compensation plans.

B&K and FLEC methodologies may work well in certain situations, but are extremely poor surrogates for ILEC costs. The small, rural ILECs represented herein must recover their total embedded costs, including joint and common costs, plus an appropriate return. Anything less will inappropriately raise local service rates, threaten universal service, and provide small, rural ILECs with little incentive to invest in infrastructure.

Not only must these ILECs be allowed to recover their total costs, the costs must be recovered from the other network providers and their customers, in addition to the ILECs' own end users. B&K and FLEC methodologies place too much cost burden on ILEC end users, forcing them to subsidize both large, powerful telecommunications corporations and huge, wealthy high volume toll users.

The Commission has the awesome task of moving a once highly regulated industry to a highly competitive one. The companies represented herein ask only that the Commission remember both the historic and current regulatory and social obligations which differentiate small, rural ILECs from other telecommunications entities.

Respectfully submitted,
ICORE, Inc.



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